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Arizona Corporation Commission

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AZ CORP COMMISSION  
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October 26, 2010

Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

**RE: Draft ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures, Docket Nos. E-00000J-08-0314 and G-00000C-08-0314.**

Western Resource Advocates (WRA) supports the proposed policy statements and proposed order as presented by Chairman Mayes in her October 18, 2010 filing in this Docket.

For electric and gas utilities to effectively respond to changing economic and environmental conditions, it is necessary to modify the business model within which utilities operate. Otherwise they will not be able to maintain financial viability and meet their obligations to consumers on a sustainable basis. Features of the new business model include:

- Reduced environmental impacts of energy production and delivery, including air emissions, so that neither human health nor the environment generally are significantly harmed by energy use, production, and delivery.
- Greatly reduced energy waste by consumers; this outcome will be achieved through a variety of utility and other energy efficiency programs.
- Incorporation of large quantities of central station and distributed renewable energy resources into the electric grid.
- Incorporation of communications technology into electric grid operations (Smart Grid).
- Improved capabilities for responding to increased competition in the energy business and to the effects of increased energy demand worldwide.

Transformation of the electric and gas industries cannot be accomplished using a 1910 business model. It is imperative that the Commission update its regulatory practices to foster a new business model. In this docket, the Commission is addressing the financial impacts to utilities of large improvements in energy efficiency. Under the traditional business model, utilities suffer financially as their sales decrease due to improved energy efficiency, thereby creating large stresses for utilities and making them reluctant to support energy efficiency programs.

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The proposed decoupling policy is an important component of a new business model. It has several strengths:

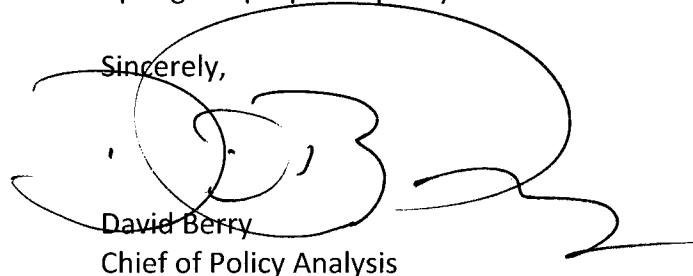
- It provides a basis for removing financial disincentives to large scale efficiency programs by means of decoupling energy sales from revenues to cover fixed costs.
- It seeks to establish administratively straight-forward methods for decoupling by suggesting use of full decoupling based on authorized fixed cost revenues per customer.
- It provides for corrections through the use of an initial three year review period.
- It encourages caps on customer exposure to potential upward swings in the decoupling surcharge.
- It allows for tailoring of decoupling mechanisms to fit utility-specific situations.
- It properly places Commission consideration of decoupling details in utility rate cases.

With regard to impacts on ratepayers, APS' analysis of the effects of fixed cost revenue per customer decoupling (based on actual sales) over the period 2000 to 2009 indicates that in some years customers pay slightly higher bills and in some years they pay slightly lower bills, and in none of the study years would average bills across all customer classes have increased or decreased by more than 2%.<sup>1</sup> APS' analysis also indicates that if decoupling surcharges and refunds were implemented by customer class, there could be greater volatility in the magnitudes of bill impacts, especially for large commercial and industrial customers. Of course, the future may be different than the past, and the proposed three year review and proposed caps on surcharges will help ameliorate unpleasant surprises if any occur.

Finally, it is important to keep in mind that with an effective efficiency program, utility rates (cents per kWh or per therm) may increase as fixed costs are spread over reduced kWh or therm sales and as utility energy efficiency program costs are recovered from ratepayers, but the total cost of meeting the demand for energy services over the long run will decrease as less energy is simply wasted and as new generation and other capacity is deferred or avoided. In addition, individual customers can better manage their energy bills by adopting energy efficient measures and practices made available through utility and other efficiency programs.

WRA thanks the Commission for the opportunity to comment on the draft policy and encourages the Commission to move forward on adopting the proposed policy.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to be 'DB' with a long horizontal flourish extending to the right.

David Berry  
Chief of Policy Analysis

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<sup>1</sup> APS letters to Chairman Mayes, May 20, 2010 and June 8, 2010, filed in this docket.